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MANUFACTURERS HANOVER

# Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

## The Trade Picture Brightens

Notwithstanding the widening of the U.S. merchandise trade deficit from $4.1 billion in March to $4.8 billion in April, there is little doubt that the United States is experiencing a marked improvement in trade performance this year. Although April's trade shortfall was some $700 million larger than that recorded in March, it was $2.8 billion below the $7.6 billion gap posted in April of last year. Indeed, the $21.7 billion trade deficit registered during the first four months of this year was a hefty 36 percent below 1990's same period shortfall of $33.8 billion. On an annualized basis, the United States is currently running a trade deficit of about $65 billion which, if this number holds up, would be one third smaller than last year's $101.7 billion figure and less than half the record $152.1 billion trade gap posted in 1987.

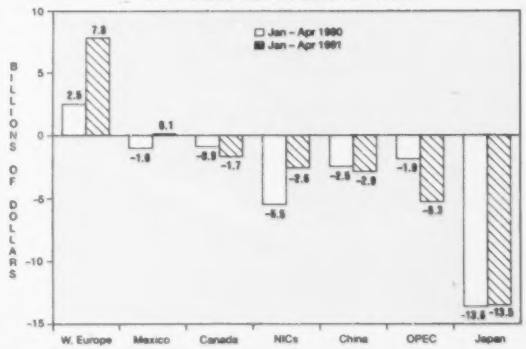
While a recession-related dip in imports has contributed to the narrower trade deficit, a far more important factor has been the persistent strength of U.S. exports. Despite a decided slowing of economic activity abroad, exports have held up remarkably well, setting a new monthly record of $35.6 billion in April. During the first four months of 1991, exports increased by around seven percent compared with the same period a year ago, while imports have declined by about two percent.

The increase in foreign sales was broad-based. During the January-April 1991 period, exports of capital goods rose by $3.3 billion compared with the same period a year ago, sales of industrial supplies and materials jumped by $3.7 billion and commercial jet aircraft shipments increased by nearly $650 million. During the same period, on the import side of the ledger, automobile imports fell by $1.4 billion, while imports of industrial supplies and materials decreased by $2½ billion.

### Gains Are Widespread

The United States improved its trade performance with almost all of its major trading partners this year, with the exceptions of Canada, China and the oil exporting nations of OPEC (see chart). The biggest improvement has been with Western Europe. As recently as five years ago, the United States posted a huge $28 billion deficit with this region, raising doubts as to whether this country would ever recoup the markets lost during the early 1980s when the dollar was excessively overvalued in the foreign exchange markets. Now, however, the tables have turned dramatically and the doubts have dissipated.

U.S. MERCHANDISE TRADE BALANCE
WITH SELECTED TRADING PARTNERS




Source: Commerce Department

With exports nearly doubling between 1986 and 1990, a byproduct of a more realistic dollar exchange rate and an extended period of faster European growth, the U.S. trade balance with Western Europe moved into the black last year for the first time since 1983—by a shade more than $4 billion—and has continued to widen this year. A trade surplus of $7.8 billion was posted in the first four months of this year, and it could reach $20 billion by yearend. And, while our trade balance with Germany is still in the red, the $1.4 billion deficit posted so far this year is less than half the $3 billion shortfall recorded in the first four months of 1990, a reflection of the rebuilding of the five new eastern states which has boosted German demand for U.S. capital goods.

Another region where the United States has made major trade inroads is with the four newly industrialized countries of East Asia (NICs). Whereas trade tensions with these countries dominated commercial relations throughout the 1980s, more aggressive efforts by the NICs to redress existing trade imbalances have begun to pay handsome dividends. The United States is now posting trade surpluses with South Korea, Singapore and Hong Kong, while our trade deficit with Taiwan withered to $2.8 billion in the first four months of this year, down from

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$3.2 billion in January-April 1990. Just last year, Taiwan's trade surplus with the United States was second only to Japan's but, if current trends continue, it may disappear entirely within the next two to three years.

South of the border, the U.S. trade balance with Mexico, our third largest trading partner after Canada and Japan, moved into surplus this year—to the tune of $56 million in the first four months from a deficit of $1 billion a year ago—due to Mexico's ongoing efforts to liberalize its economy. And, while our trade gap with Japan narrowed by only $100 million in the first four months of this year, this number looks good in perspective, especially when you consider that Japan's trade surpluses with both Europe and the rest of Asia are soaring.

While trade balances with most of the world have improved this year, the deficit with Canada, our largest trading partner, has not, widening to $1.7 billion in the January-April period from $800 million a year ago. Although Canada's prolonged recession has dampened that country's import appetite in general, the United States has shouldered the brunt of the cutbacks.

The trade deficit with China also widened, from

## Short Term Paper Outstanding

(Millions of Dollars)

| Time Deposits $100,000 or more Weekly Reporting Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (6/26/91) | 190,854 | - 1,915 | - 21,594 |
| New York City (7/3/91) | 32,123 | + 1,177 | - 7,811 |
| **Commercial Paper** (7/3/91) | 544,782 | - 1,106 | + 3,629 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (6/26/91) | 308,956 | - 907 | - 12,950 |
| New York City (7/3/91) | 54,854 | - 452 | - 2,089 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (6/26/91) | 1,038,584 | + 546 | + 26,776 |
| New York City (7/3/91) | 171,681 | - 2,536 | - 8,290 |

## Financial Markets

| | Friday 7/12/91 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 5.68% | - .04 | - 2.13 |
| 180-Day Bills† | 5.90 | - .03 | - 1.99 |
| Longest Bills† | 6.21 | - .16 | - 1.68 |
| **Recent Issues:** | | | |
| 7s 6/30/93 | 6.83 | - .19 | |
| 7⅞s 6/30/96 | 7.89 | - .10 | |
| 8s 5/15/01 | 8.24 | - .09 | |
| 8⅛s 5/15/21 | 8.43 | - .06 | |
| **Municipals:** | | | |
| Bond Buyer—20 Bond Index* (7/11/91) | 7.07% | - .03 | - .14 |
| Blue List Total ($ Million) | $1,189 | + $ 70 | +$ 205 |
| 30-Day Visible Supply ($ Million) | $3,799 | + $898 | +$1,515 |
| Total | $4,988 | + $968 | +$1,720 |
| **Corporates:** | | | |
| Moody's Aa Composite (7/11/91) | 9.27% | - .02 | - .25 |
| 30-Day Visible Supply ($ Million) | $ 725 | + $ 97 | - $ 245 |
| **Stocks:** | | | |
| Dow-Jones Averages: | | | |
| Industrials | 2,980.77 | + 48.30 | + .57 |
| Transportation | 1,209.45 | + 13.75 | + 21.86 |
| Utilities | 198.06 | + .50 | - 8.12 |
| 65 Stocks | 1,061.30 | + 13.74 | + 1.79 |
| **N.Y.S.E. Composite Index** | 208.17 | + 3.25 | + 7.84 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 159,830 | + 26,555 | - 12.125 |

*34% Taxable equivalent 10.71%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 7/12/91 | Week Ago |
|---|---|---|
| Overnight | 5.81% | 5.81% |
| 1 month | 5.94 | 5.94 |
| 3 month | 6.06 | 6.06 |
| 6 month | 6.31 | 6.38 |
| 1 year | 6.69 | 6.81 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (7/12/91) | Currency Per U.S. $ | Week Ago |
|---|---|---|
| Belgium | 37.30 | 37.60 |
| Canada | 1.1484 | 1.1436 |
| France | 6.1400 | 6.1930 |
| Germany | 1.8085 | 1.8275 |
| Italy | 1347.50 | 1359.30 |
| Japan | 138.30 | 138.35 |
| Mexico | 3027.40 | 3025.00 |
| Netherlands | 2.0380 | 2.0575 |
| South Korea | 717.77 | 714.62 |
| Switzerland | 1.5695 | 1.5755 |
| Taiwan | 26.74 | 26.75 |
| U.K.* | 1.6315 | 1.6165 |

*U.S. $ per U.K. pound

| MH TRADE-WEIGHTED DOLLAR (7/12/91) (Adjusted for Inflation) | Change Since Week Ago | Change Since 2/27/85 |
|---|---|---|
| | -0.1% | -9.1% |

$2½ billion in January-April 1990 to almost $3 billion so far this year. In an effort to build foreign exchange reserves, China has initiated a major export drive, while placing a tight lid on imports. Benefiting from its "most favored-nation" trade status, China is the only non-free market economy to have become a major exporter to the United States, replacing Taiwan as the country with which we have our second biggest trade deficit after Japan.

### Further Improvement Ahead

On a global basis, the U.S. trade deficit should continue to shrink, even if the current rebound in economic activity results in an increase in imports. The trade improvement, which is far more attributable to export growth than import shrinkage, began long before the United States lapsed into recession, and is unlikely to end once economic growth accelerates. What is more, exports have performed well during a period when a number of European economies slipped into the doldrums; they are likely to do even better when Europe recovers later this year. Further ahead, and closer to home, the creation of a North American free trade zone with Canada and Mexico could give a further lift to U.S. exports in coming years. In any event, the days of $100 billion-plus annual trade deficits are over.

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 7/10/91 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 261.061 | + 2.750 | +20.202 |
| Loans to Depository Inst. | .332 | - .537 | - .243 |
| Float | .480 | - .175 | - .427 |
| Total Reserve Bank Credit | 296.684 | + 1.914 | +13.897 |
| Treasury Deposits with Federal Reserve Banks | 7.081 | - 2.426 | + 1.108 |
| Currency in Circulation | 294.846 | + 2.544 | +24.839 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 241.662 | - 1.894 | +14.913 |
| | **7/10/91** | | |
| Member Bank Reserves: | | | |
| Total Reserves Held | 51.267 | + .877 | - 9.099 |
| Excess (Deficiency) | .806 | - .474 | - .095 |
| Net Free Reserves | .211 | - .763 | - .291 |

| Monetary Aggregates † | | ‡ % Change Since 3 Months Ago* | ‡ % Change Since Year Ago |
|---|---|---|---|
| M1 (7/1/91) | 862.1 | + 7.4 | + 6.1 |
| M2 (7/1/91) | 3,396.5 | + 2.4 | + 3.6 |
| M3 (7/1/91) | 4,152.3 | - 0.8 | + 2.4 |
| Domestic Nonfinancial Debt (1st Q'91) | 10,634.2 | + 2.8 | + 5.5 |

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

## New York Money Market

| Offering Rates 7/12/91 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡ U.S. Treasury Bills | 5.54% | 5.67% | 5.86% |
| * Federal Agencies | 5.95 | 6.10 | 6.55 |
| * Municipal Notes–High Grade (34% Taxable Equivalent) | 6.44 | 6.67 | 6.82 |
| Negotiable Time CDs | | | |
| Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market–Prime | 6.05 | 6.30 | 6.60 |

‡ Finance Company Paper–Prime

| | |
|---|---|
| 5- 14 days | 5.65% |
| 15- 29 days | 5.80 |
| 30- 59 days | 5.86 |
| 60- 89 days | 5.88 |
| 90-179 days | 5.88 |
| 180-239 days | 6.05 |
| 240-270 days | 6.10 |

‡* Bankers' Acceptances

| | |
|---|---|
| Aug. | 5.94% |
| Sep. | 5.94 |
| Oct. | 5.95 |
| Nov. | 5.98 |
| Dec. | 6.02 |
| Jan. | 6.05 |

‡ Industrial Paper–Prime

| | |
|---|---|
| 30- 89 days | 5.89% |
| 90-120 days | 5.95 |

†Federal Funds Effective Rate 5.69%

‡ Discount basis. *Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 1st Q'91 | $ 5,558 | $ 5,527 | $ 5,375 |
| Gross National Product (1982 Dollars)* | 1st Q'91 | $ 4,124 | $ 4,153 | $ 4,151 |
| Percent Change, Annual Rate | 1st Q'91 | - 2.8 | - 1.6 | 1.7 |
| Change in Consumer Prices* | May '91 | 3.6% | 2.4% | 2.4% |
| Change in MH Cost of Living Index* | May '91 | 2.4% | 7.2% | 3.6% |
| Change in Producer Prices* | Jun '91 n | - 3.6% | 7.2% | 0.0% |
| Civilian Employment (Thousands of Persons) † | Jun '91 n | 116,884 | 116,591 | 118,237 |
| Unemployment as % of Civilian Labor Force † | Jun '91 n | 7.0% | 6.9% | 5.3% |
| Personal Income* | May '91 | $ 4,779 | $ 4,755 | $ 4,621 |
| Leading Indicators Composite Index (1967=100) † | May '91 | 143.1 | 142.0 | 146.0 |
| Industrial Production Index (1977=100) † | May '91 | 105.8 | 105.3 | 109.4 |
| Net Change in Consumer Installment Credit † | May '91 n | - $ 0.63 | $ 1.18r | $ 1.78 |
| U.S. Merchandise Trade Balance † | Apr '91 | - $ 4.78 | - $ 4.07 | - $ 7.62 |
| Plant and Equipment Expenditures* | 3rd Q'91 | $ 553.5 (a) | $ 544.2 (a) | $ 534.9 |
| Private Housing Starts (Thousands of U...) | May '91 | 982 | 981 | 1,208 |
| New Construction Expenditures* | May '91 n | $ 403.1 | $ 406.6r | $ 443.8 |
| Total Business Inventories † | Apr '91 | $ 815.2 | $ 819.6 | $ 813.0 |
| Total Business Sales † | Apr '91 | $ 529.6 | $ 523.1 | $ 535.4 |

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Strength

**In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.**

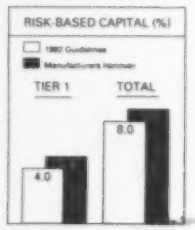
**We exceeded these standards 2 years ago.**

At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.




Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

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